

CONSUMERS ILLINOIS WATER COMPANY - VERMILION DIVISION
Adjustment to Political and Lobbying Expenses
For Test Year Ended December 31, 2001

Account No. 675 - Miscellaneous Expense

Line	Description (A)	Per Company (B)	Per Staff (C)	Staff Adjustment (D)
1.	James "Pate" Phillip Campaign	\$ 2,000	\$0	\$ (2,000)
2.	Friends of Lee Daniels Campaign	2,000	0	(2,000)
3.	Citizens for Emil Jones	2,000	0	(2,000)
4.	Citizens for Phil Novak	1,050	0	(1,050)
5.	Citizens for Rauchenberger	1,500	0	(1,500)
6.	M. Madigan	3,000	0	(3,000)
7.	Items Under \$1,000	13,800	0	(13,800)
8.	Company Total	\$ 25,350	\$ -	\$ (25,350)
9.	Division Allocation Factor	32.4870%	32.4870%	32.4870%
10.	Total Test Year Political and Lobbying Expense	\$ 8,235	\$ -	\$ (8,235)

Sources:

Lines 1-8: CIWC's 285 Filing, Schedule C-9, Page 1
Line 9: CIWC's Response to DR WH/K-007.
Line 10: Line 8 x Line 9.

CONSUMERS ILLINOIS WATER COMPANY - VERMILION DIVISION
Adjustment to Regulatory Commission Expense
For Test Year Ended December 31, 2001

Line	Description (A)	Per Company (B)	Per Staff (C)	Staff Adjustment (D)
1.	Current Rate Case Expense (Docket No. 00-0339)	\$ 133,654	\$ 133,654	\$ -
2.	Amortization of Prior Vermillion Division Rate Case Expense from Docket No. 97-0351	13,088	13,088	-
3.	Allocation from Candlewick Rate Case Docket 99-0288	31,291	0	(31,291)
4.	Total Rate Case Cost to be Amortized	\$ 178,033	\$ 146,742	\$ (31,291)
5.	Amortization Period in Years	3.0	3.0	N/A
6.	Annual Rate Case Amortization Expense	<u>\$ 59,344</u>	<u>\$ 48,914</u>	<u>\$ (10,430)</u>

Sources:

Column (B): CIWC's Filing, Schedule C-2.2.

Line 4: CIWC's Response to DR WH/ALL-07 and WH/ALL-006(b).

Docket Nos. 00-0337/ 00-0338/00-0339
Consolidated
ICC Staff Exhibit 2.00
Schedule 2.04(V)

CONSUMERS ILLINOIS WATER COMPANY - VERMILION DIVISION
Adjustment to Social and Service Club Membership Dues
For Test Year Ended December 31, 2001

Account No. 675 - Miscellaneous Expense

Line	Description (A)	Amount (B)
1.	<u>Danville Country Club:</u>	
2.	Staff Amount	\$0
3.	Less: Company Amount	<u>\$ (3,106)</u>
4.	Staff Adjustment	<u>\$ (3,106)</u>

Sources:

Line 2: Public Utilities Act, Section 9-224.
Line 3: CIWC's 285 Filing, Schedule C-6, Page 2.
Line 4: Line 2 - Line 3.

CONSUMERS ILLINOIS WATER COMPANY - VERMILION DIVISION
Adjustment to Demonstration Selling, Advertising, and Miscellaneous Sales Expense
For Test Year Ended December 31, 2001

Line	Description (A)	Amount (B)
	<u>Account 660, Advertising Expenses:</u>	
1.	Total Test Year Advertising Expense	\$ 22,327
2.	Percent Disallowed	<u>-34.09%</u>
3.	Staff Adjustment	<u>\$ (7,610)</u>

Sources:

Line 1: Company 285 Filing, Schedule C-8.

Line 2: Staff Exhibit 2.00, Schedule 2.6(K), Line 28.

Line 3: Line 1 x Line 2.

Consumers Illinois Water Company-Woodhaven Water Division
Incentive Compensation Expense Adjustment
For the Test year Ended December 31, 2001

Line No.	Description (A)	Amount (B)	Source (C)
1	Incentive Compensation Award per Staff	\$ 4,174	Staff Exhibit 2.0, Schedule 2.01 (W), Page 2, Line 10
2	Incentive Compensation Award per Company	4,467	Staff Exhibit 2.0, Schedule 2.01 (W), Page 2, Line 6
3	Staff Adjustment to Incentive Compensation Award	\$ (293)	Line 1 - Line 2
4			
5	Percentage Capitalized	11.06%	Company Schedule C-11.8, Page 2, Col. (J)
6			
7	Staff Adjustment to Utility Plant in Service	\$ (32)	Line 3 x Line 5
8			
9	Percentage Expensed	88.94%	Company Schedule C-11.8, Page 2, Col. (L)
10			
11	Staff Adjustment to Employee Benefits	\$ (261)	Line 3 x Line 9

Consumers Illinois Water Company-Woodhaven Water Division
Incentive Compensation Expense Adjustment
For the Test year Ended December 31, 2001

Line No.	Description (A)	Amount (B)	Source (C)
1	Corporate Incentive Compensation Award	\$ 35,664	Provided by Company during June fieldwork
2	Allocation Factor %	2.43%	Company WP-A5 Page 3, Line 10
3	Amount Allocated to Woodhaven	867	Line 1 x Line 2
4			
5	Woodhaven Incentive Compensation Award	3,600	Provided by Company during June fieldwork
6	Total Incentive Compensation Budgeted	4,467	Line 3 + Line 5
7			
8	Average Historical Budget Expended	93.44%	Staff Exhibit 2.0, Schedule 2.01 (W), Page 3, Line 13
9			
10	Adjusted Incentive Compensation Award	<u>\$ 4,174</u>	Line 6 x Line 8

Consumers Illinois Water Company-Woodhaven Water Division
 Incentive Compensation Expense Adjustment
 For the Test year Ended December 31, 2001

Line No.	Description (A)	Amount (B)	Source (C)
1	Incentive Compensation Paid:		
2	1997	\$ 130,282	1
3	1998	153,672	1
4	1999	168,298	1
5	Total 3 year expense	<u>\$ 452,252</u>	Sum of Lines 2, 3, and 4
6			
7	Incentive Compensation Budgeted:		
8	1997	\$ 152,000	2
9	1998	170,000	2
10	1999	162,000	2
11	Total 3 year budget	<u>\$ 484,000</u>	Sum of Lines 8, 9, and 10
12			
13	Average Historical Budget Expended	<u>93.44%</u>	Line 5 divided by line 11

Source 1: Company Response to Staff Data Request WH/ALL-002
 Source 2: Company Response to Staff Data Request WH/ALL-003

CONSUMERS ILLINOIS WATER COMPANY - WOODHAVEN DIVISION
~~Adjustment to Political and Lobbying Expense~~
For Test Year December 31, 2001

Account No. 675 - Miscellaneous Expense

Line	Description (A)	Per Company (B)	Per Staff (C)	Staff Adjustment (D)
1.	James "Pate" Phillip Campaign	\$ 2,000	\$0	\$ (2,000)
2.	Friends of Lee Daniels Campaign	2,000	0	(2,000)
3.	Citizens for Emil Jones	2,000	0	(2,000)
4.	Citizens for Phil Novak	1,050	0	(1,050)
5.	Citizens for Rauchenberger	1,500	0	(1,500)
6.	M. Madigan	3,000	0	(3,000)
7.	Items Under \$1,000	<u>13,800</u>	<u>0</u>	<u>(13,800)</u>
8.	Company Total	\$ 25,350	\$ -	\$ (25,350)
9.	Division Allocation Factor	<u>4.0082%</u>	<u>4.0082%</u>	<u>4.0082%</u>
10.	Total Test Year Political and Lobbying Expense	<u>\$ 1,016</u>	<u>\$ -</u>	<u>\$ (1,016)</u>

Sources:

Lines 1-8: CIWC's 285 Filing, Schedule C-9, Page 1
Line 9: CIWC's Response to DR WH/K-007.
Line 10: Line 8 x Line 9.

CONSUMERS ILLINOIS WATER COMPANY - WOODHAVEN DIVISION
~~Adjustment to Regulatory Commission Expense~~
 For Test Year Ended December 31, 2001

Line	Description (A)	Per Company (B)	Per Staff (C)	Staff Adjustment (D)
1.	Current Rate Case Expense (Docket No. 00-0338)	\$ 51,090	\$ 51,090	\$ -
2.	Allocation from Candlewick Rate Case Docket No. 99-0288	11,425	0	(11,425)
3.	Total Rate Case Cost to be Amortized	\$ 62,515	\$ 51,090	(11,425)
4.	Amortization Period in Years	3.0	4.0	N/A
5.	Annual Rate Case Amortization Expense	\$ 20,838	\$ 12,773	\$ (8,065)

Sources:

Column (B): CIWC's 285 Filing, Schedule C-2.2.

Line 2: CIWC's Response to DR WH/All-07 and WH/ALL-006(b).

Docket Nos. 00-0337/ 00-0338/00-0339
Consolidated
ICC Staff Exhibit 2.00
Schedule 2.05(W)

CONSUMERS ILLINOIS WATER COMPANY - WOODHAVEN DIVISION
Adjustment to Demonstration Selling, Advertising, and Miscellaneous Sales Expense
For Test Year Ended December 31, 2001

Line	Description (A)	Amount (B)
	<u>Account 660. Advertising Expenses:</u>	
1.	Total Test Year Advertising Expense	\$ 152
2.	Percent Disallowed	<u>-34.09%</u>
3.	Staff Adjustment	<u>\$ (52)</u>

Sources:

Line 1: Company 285 Filing, Schedule C-8.

Line 2: Staff Exhibit 2.00, Schedule 2.6(K), Line 28.

Line 3: Line 1 x Line 2.

Docket Nos. 00-0337, 00-0338, 00-0339
Consolidated
ICC Staff Exhibit 9.00

REBUTTAL TESTIMONY

OF

STEVEN R. KNEPLER

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

CONSUMERS ILLINOIS WATER COMPANY

DOCKET NOS. 00-0337, 00-0338, 00-0339
Consolidated

OCTOBER 26, 2000

1 Witness Identification

2 Q. ~~Please state your name and business address.~~

3
4 A. My name is Steven R. Knepler. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.

6
7 Q. Have you previously filed testimony in this proceeding?

8
9 A. Yes. My direct testimony was filed on August 31, 2000 as ICC Staff
10 Exhibit 2.00.

11
12 Purpose of Testimony

13 Q. What is the purpose of your rebuttal testimony?

14
15 A. The purpose of my testimony is to address several issues discussed in the
16 rebuttal testimonies of Consumers Illinois Water Company (CIWC or
17 Company) witnesses Bunosky (CIWC Exhibit No. 3.0R), Leppert (CIWC
18 Exhibit No. 5.0R) and Simpson (CIWC Exhibit No. 6.0R).

19
20 Schedules

21 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 9.00?

22

23 A. Yes. I am sponsoring the following schedule as part of ICC Staff Exhibit

24 9.00:

25 Schedule 9.01(K) Adjustment to Wages and Salaries for
26 Omitted Employee
27

28 Q. Please explain the "(K)", "(V)" and "(W)" suffixes which appear in
29 your schedule numbers.

30

31 A. Consumers Illinois Water Company has filed for rate increases for three
32 operating divisions: Kankakee Water Division, Vermilion County (Water)
33 Division, and Woodhaven Water Division. The "(K)" suffix identifies a
34 schedule which pertains to the Kankakee Water Division. The "(V)" suffix
35 identifies a schedule which pertains to the Vermilion County Division. The
36 "(W)" suffix identifies a schedule which pertains to the Woodhaven Water
37 Division.

38

39 Q. Messrs. Bunosky and Leppert address the Company's proposal to
40 include the wages of an employee omitted from the original filing for
41 the Kankakee Division. Do you agree with the proposal?

42

43 A. No, I do not agree with it for two reasons. First, Staff did not propose any
44 wage and salary adjustments to the Company's filing. Therefore, the

45 recommendation to include the wages of the omitted employee is not
46 rebuttal testimony (since there is no adjustment to rebut), but rather it is an
47 update to the Company's filing. Second, the Company chose to file under
48 the proposed filing requirements for a future test year which allows updates
49 only in very limited circumstances. The proposed Section 287.110(b)
50 addition to the Commission rules, Updates to Future Test Year Data,
51 states that:

52 A determination to require or allow the submission of an update shall
53 include, but not be limited to, the consideration of:

- 54 1) Whether the changes significantly affect the revenue
55 requirement;
 - 56 2) Whether the changes could reasonably have been reflected in
57 the initial tariff filing; and
 - 58 3) Whether the Illinois Commerce Commission staff and other
59 participants will have an adequate opportunity to review the
60 updated information.
- 61

62 It is my opinion that the wage and salary update proposed by the Company
63 is not in compliance with the update provisions. Of the three update tests
64 identified above, it is questionable whether the Company passes the first
65 test. The Company clearly fails the second test. The Company passes the
66 third test. Therefore, under the proposed requirements above, the update
67 would not be permitted. In fairness to the Company, Staff has reflected the
68 omitted wage in its revenue requirement determination. Should the
69 Commission find that the update for the omitted wage is inappropriate

70 because it violates the test year rules, then it would be necessary to
71 remove that amount from the final revenue determination.
72

73 **Q. What is the status of your Adjustment to Incentive Compensation**
74 **Expense (ICC Staff Exhibit 2.00, Schedules 2.01(K), (V), and (W))?**
75

76 **A.** Although the Company did not agree with the inclusion of 1997 in the
77 computation of the average incentive compensation payout, it did agree to
78 accept my adjustment for the purpose of this case. Therefore, there is no
79 ~~disagreement with respect to incentive compensation between the~~
80 ~~Company and Staff.~~ As a result, my incentive compensation adjustment,
81 ~~shown on ICC Staff Exhibit 2.00, Schedule 2.01(K), (V), and (W), is~~
82 properly reflected in the revenue requirement.
83

84 Advertising Expense

85 **Q. Beginning on page 9 of his rebuttal, Mr. Bunosky states that he does**
86 **not agree with the calculation of your adjustment to remove**
87 **promotional advertising expense from the test year. Mr. Bunosky**
88 **agrees with the methodology in general, however he believes that**
89 **expenses related to the distribution of bottled water are not**
90 **promotional. Do agree you with his conclusion?**

91

92 A. No, I do not agree. Mr. Bunosky states that the bottles are filled with
93 water produced at the Kankakee water treatment plant and distributed free
94 of charge at community events held throughout the year. According to Mr.
95 Bunosky, the Company estimates that 60% or \$4,800 of the \$8,000 spent
96 for mugs and bottles relates to the distribution of bottled water. Mr.
97 Bunosky believes that the distribution of bottled water is a community
98 service, and is thus not specifically promotional in nature (CIWC Exhibit
99 NO. 3.0R, p. 10, lines 23 and 7). Mr. Bunosky also claims that the
100 distribution of bottled water should be allowed because it educates the
101 public that tap water "tastes as good and is as safe to drink as bottled
102 water...." (Id., p. 11, lines 4-5).

103

104 I believe that expenses related to the distribution of bottled water are
105 goodwill advertising and are not permissible for the following reasons:

106

- 107 1. The expenses are not specifically identified as allowable expenses
108 under Section 9-225 of the Act.
- 109 2. CIWC is a utility and is allowed to recover expense necessary to
110 provide water service within its certificated area. The distribution of
111 bottled water at community events is not a necessary function of a
112 water utility and any related expenses should not be recoverable.
- 113 3. Furthermore, if the Company is attempting to demonstrate that tap
114 water tastes as good as bottled water, then a side-by-side taste
115 comparison must be made. Since the comparison was not made,
116
117

the only alternative is to conclude (once again) that this expenditure is made for goodwill purposes.

4. On the other hand, if the Company is attempting to develop a bottled water product which would compete with bottled water and other beverages currently available, then this is a (competitive) non-utility activity, and any related expense is not recoverable and it should be accounted for below-the-line.

Section 9-225(1)(d) defines Goodwill or institutional advertising as "any advertising either on a local or national basis designed to bring the utility's name before the general public in such a way as to improve the image of the utility or to promote controversial issues for the utility or the industry. For the reasons stated above, I believe the distribution of bottled water enhances the goodwill of the Company and the related expense should not be recovered from ratepayers. Therefore, I am maintaining my Adjustment to Demonstration Selling, Advertising, and Miscellaneous Sales Expense on Schedules 2.05(K), (V) and (W).

Amortization of Rate Case Expense- Kankakee Division

Q. In his rebuttal testimony, CIWC witness Simpson agrees with your proposal to amortize rate case expense for the Woodhaven Division over 4-years. However the Company indicates that the appropriate amortization period for the Kankakee Division should be revised from its proposal in direct testimony of 1.5 years or 18 months to 2.5-years

143 or 30 months. (CIWC Ex. 6.0R, p. 9). Do you believe that a 2.5-year
144 amortization period for the Kankakee Division is appropriate?

145

146 A. No. Although the average time between CIWC's two most recent rate
147 cases is approximately 2.5 years, I believe that the determination of a rate
148 case amortization period should not be limited to an exact mathematical
149 average of the time between rate cases. CIWC's most recent rate filings¹
150 have used a future test year and one of the benefits of such a test year is
151 the need for fewer less frequent rate case filings. Furthermore, a 3-year
152 amortization period would moderate the Company's 19.12% (or
153 \$1,625,808) requested rate increase for the Kankakee Division because
154 the rate case expense is amortized over a longer period. For these
155 reasons, I am maintaining my adjustment to amortize rate case expense for
156 the Kankakee Division over a 3-year period. The details of this adjustment
157 are shown on ICC Staff Exhibit 2.00, Schedule 2.03(K).

158

159 Q. If the Commission were to accept Staff's proposed 3-year
160 amortization period, and if the Company were to file a rate case for
161 its Kankakee Division before costs were fully recovered, would the
162 Company be harmed?

¹ Docket No. 99-0288 for the Candlewick Water Division filed on April 30, 1999 and Dockets 00-0337, 00-0338 and 00-0339 (Consolidated) filed on April 14, 2000.

163

164 A. No. The Company would be permitted to fully recover the unrecovered
165 portion of rate case expense in a future rate proceeding. This is precisely
166 the same recovery methodology that the Company is proposing in this
167 proceeding for its Kankakee and Vermilion Divisions. At the time the new
168 rates go into effect the Company will have approximately \$34,164 in
169 unamortized rate case expense for its Kankakee Division from Dockets 95-
170 0342 and 97-0351; and \$13,088 for its Vermilion Division from Docket No.
171 97-0351. As noted in my direct testimony, Staff does not oppose the
172 Company's proposal to recover the remaining balance of rate case
173 expenses associated with prior dockets (ICC Staff Exhibit 2.00, p. 6). The
174 recent Commission practice is to allow the utilities to fully recover rate case
175 expense.

176

177 Q. Would the ratepayers be disadvantaged if the Commission was to
178 select the Company's proposed rate case amortization period and if
179 the Company was to file for rate relief subsequent to the (Company
180 proposed) 2.5-year amortization period?

181

182 A. Unlike the Commission policy of guaranteeing full recovery of rate case
183 expense, there is no reciprocal agreement or Company tariff to reduce
184 rates once rate case expense has been fully recovered. Therefore, in

order to prevent the overrecovery of rate case expense, the Commission should select an appropriate amortization period.

Deferred Rate Case Expense

Q. Beginning on page 9 of his rebuttal testimony, Company witness Simpson states that recovery of rate case expense deferred from Docket 99-0288 (Candlewick Water Division) and allocated to the Kankakee, Vermilion and Woodhaven Water Division is appropriate for recovery in this proceeding. He further states that this deferred expense was used to develop a new computer model used in rate proceedings. Please respond to Mr. Simpson's comments regarding the necessity for a new computer model and its alleged benefits.

A. Mr. Simpson's arguments are less convincing if one is aware of the facts surrounding the deferral issue. I will not reiterate these items in my rebuttal testimony as they are cited beginning on page 8, line 182 through page 10, line 232 of my direct testimony (ICC Staff Exhibit 2.00).

Company witness Simpson indicates that the computer model "was necessary for the Company to develop an *entirely new* set of filing schedules...". (Id., p.10, Lines 3-4, *Emphasis Added*). Presumably the

206 prior rate case model could have been modified to accommodate a future
207 test year. Although there are differences in the current filing requirements
208 and the proposed requirements, the similarities outweigh these differences.

209
210 Mr. Simpson also states that "the Company was required to develop
211 entirely new computer software models to generate the filing requirement
212 schedules." (Id., Lines 8-9). There is no requirement in the proposed filing
213 requirements which requires a utility to develop entirely new computer
214 software models and, again, it seems that it should have been possible for
215 the Company to modify the prior model used for historical test years.

216
217 ~~Other alleged benefits of the new model made by Mr. Simpson are that the~~
218 "model containing the new filing requirements was two to three times as
219 large as the model for the previous single division filing under the old filing
220 requirements." (Id., Lines 10-12). I submit that this is not a benefit per se,
221 but rather an inherent difference between the Company's old model and
222 new model. The Company's old model was limited to financial information
223 and included separate components used to track plant balances and to
224 calculate depreciation expense. Under the new model, the company is
225 attempting develop an integrated model.

227 Q. Mr. Simpson also cites new filing requirements as a reason for
228 additional rate case expense in Docket No. 99-0288. Does he
229 correctly characterize the filing requirements and, if so, are they
230 significant enough to create additional rate case expense?

231

232 A. Staff has never claimed that there are not any new filing requirements as
233 these difference clearly are identified in Appendix A to Staff's Initial Brief in
234 Docket No. 93-0351. As noted correctly by Company witness Simpson,
235 the H Schedules are part of those additional requirements. However, the
236 point is, are these new requirements significant enough to require the
237 Company to incur \$430,612 for a rate case of one division consisting of
238 2,500 customers or are there other reasons for which the shareholders
239 rather than the ratepayers should be held responsible? Staff has testified
240 that much of the additional information required by the proposed filing
241 requirements was typically provided by the utilities in response to Staff's
242 generic data requests. In other words, sooner with the filing of testimony
243 (using proposed filing requirements) or later in response to generic data
244 requests (under the current filing requirements) - the Company would
245 provide this additional information to Staff.

246

247 With respect to the information required by the H Schedules, a good
248 portion of it should be readily available in conjunction with the Company's

249 normal budget and business plan. Thus, it should not be a Herculean effort
250 to supply the required H Schedules. Staff ~~nonetheless notes that the~~
251 Company has demonstrated difficulty in performing basic record keeping
252 and rate case tasks such as maintaining its required continuing property
253 records (Kankakee and Vermilion Divisions), losing count of the fire
254 hydrants in the Kankakee Division, and failing to file revenue requirement
255 schedules with its rebuttal testimony in this proceeding.

256
257 **Q. Mr. Simpson refers to "Conversion Activities" which presumably the**
258 **outside consultants performed with respect to the most recent**
259 **Candlewick Water Division rate case, Docket No. 99-0288. Has the**
260 **Company further identified these activities?**

261
262 **A.** No. Staff has requested a copy of the contract to develop the software,
263 but was informed that none exists. Without a contract it is impossible to
264 identify the "Conversion Activities" or responsibilities to be performed.
265 Given that no contract exist and that the "development of software" was
266 first disclosed during the rebuttal stage in the Company's Docket No. 99-
267 0288, the "Conversion Activities" appear more illusionary than real. The
268 Company may believe that it is an appropriate business practice to finance
269 the development of software with a blank check. If that is the case, then

270 the stockholders, not the ratepayers, should be responsible for covering
271 the ~~blank check~~.

272

273 Q. On page 11 of his rebuttal, Mr. Simpson cites certain rate case cost
274 savings which he suggests are attributable to the Company's rate
275 case model. Do you have any comments?

276

277 A. Yes. The difference in rate case expense, is not necessarily attributable to
278 the Company's new model. There may be other factors involved, such as
279 the decision to use in-house legal service as opposed to outside legal
280 service, or accounting service from the parent organization as opposed to
281 outside consultants. The \$339,876 cited by Mr. Simpson is the Company's
282 original estimate of current rate case for the Kankakee, Vermilion and
283 Woodhaven Divisions in this proceeding. In the recent Candlewick
284 proceeding, where CIWC's original cost estimate was \$300,000, the
285 Company reported that it spent a total of \$430,612 for a rate case involving
286 one division of 2,500 customers.

287

288 The real issue is how much was budgeted and how much was incurred for
289 rate case expense in Docket No. 99-0288; as well as how much of this
290 expense should be the responsibility of ratepayers and how much should
291 be the responsibility of the stockholders. In the Candlewick Water

proceeding the Company exceeded its rate case expense budget of \$300,000 by \$130,612 for a total rate expense of \$430,612. Being over-budget, presumably the Company realized that it could only charge the Candlewick ratepayers an amount that approximated the original budget. In its rebuttal in that proceeding the Company disclosed that much of the amount over-budget was for the development of software. The end result was that the Candlewick ratepayers were charged \$314,246 and \$116,366 was deferred.

Q. Is it reasonable to conclude that the amount the Company stated that it incurred for the development of software was actually for assistance in filing testimony and related schedules?

In addition to not having a contract and the Company's disclosure in rebuttal that a portion of its costs were for the software development, there are other facts. In response to Staff Data Request DH-110, regarding the number of hours Danny E. Allen (an employee of the parent company) spent developing or modifying the revenue requirement rate model used in this proceeding, CIWC indicated:

Mr. Allen charged 343 hours to the Consumers Illinois Water Company rate filing from October 1999 through the filing date of April 14, 2000. It is estimated approximately 90% of these hours

315 were directly attributable to developing / improving the existing rate
316 filing template and modifying it specifically to produce the revenue
317 requirement rate models used in this proceeding.
318

319 Thus, it appears that the Company paid for a computer model that was not
320 fully functional. Furthermore, the fact that of the \$116,366 of deferred rate
321 case expense, 57% is attributable to legal fees instead of software
322 program development expenses is a further indication that the Company's
323 "deferral theory" lacks credibility.
324

325 **Q. Please summarize the status of your adjustment to eliminate deferred**
326 **rate cases expense.**
327

328 **A.** Until the Company can provide a contract for the development of its
329 computer model and responds to the 9 conditions surrounding the
330 presentation of Docket No. 99-0288 identified on pages 8-10 of my direct
331 testimony, I am maintaining my adjustment. The details of the adjustment
332 are shown on Schedules 2.03(K), (V), and (W) attached to my direct
333 testimony.
334

335 Conclusion

336 **Q. Please summarize the status of your adjustments.**
337

338 A. The status of my adjustments are as follows:

- 339 • My incentive compensation adjustment was accepted by the Company
340 (Schedules 2.01(K), (V) and (W)).
341
- 342 • My adjustment to political and lobbying expense was accepted by the
343 Company (Schedules 2.02(K), (V) and (W)).
344
- 345 • The Company accepted my adjustment to amortize the Woodhaven rate
346 case expense over 4 years (Schedule 2.03(W)). I am maintaining my
347 adjustment to amortize the Kankakee Division rate case over 3 years
348 (Schedule 2.03(K)).
349
- 350 • As stated previously, I am maintaining my adjustment to eliminate rate
351 case expense deferred from Docket 99-0288 (Schedules 2.03(K), (V),
352 and (W)).
353
- 354 • The Company has accepted my adjustment to social and service club
355 membership dues (Schedules 2.04(K) and (V)).
356
- 357 • The Company accepted my adjustment to demonstration selling,
358 advertising, and miscellaneous expense, with the exception of those
359 expenses related to the distribution of bottled water. I am maintaining
360 my adjustment in its entirety (Schedules 2.05(K), (V), and (W)).
361
- 362 • The wages of an employee omitted from the Company's direct case
363 have been reflected in Staff rebuttal revenue requirement.
364

365 Q. Does this conclude your prepared rebuttal testimony?

366

367 A. Yes, it does.

Docket Nos. 00-0337/ 00-0338/00-0339
Consolidated
ICC Staff Exhibit 9.00
Schedule 9.01(K)

CONSUMERS ILLINOIS WATER - KANKAKEE DIVISION
Adjustment to Wages and Salaries for Omitted Employee
For The Test Year Ended December 31, 2001

Account No. 601 - Salaries & Wages, Employees

Line	Description (A)	Amount (B)	Source (C)
1.	<u>Operating Statement Adjustment:</u>		
2.	Staff Amount	\$0	
3.	Add: Company Amount (90.58% x \$38,138)	\$ 34,545	CIWC EXHIBIT 5.0R, p. 4
4.	Staff Adjustment	<u>\$ 34,545</u>	Line 2 + Line 3
5.	<u>Rate Base Adjustment:</u>		
6.	Staff Amount	\$0	
7.	Add: Company Amount (9.42% x \$38,138)	\$ 3,593	CIWC EXHIBIT 5.0R, p. 4
8.	Staff Adjustment to Plant in Service	<u>\$ 3,593</u>	Line 6 + Line 7
9.	Total Wage Expense, \$38,138:		
10.	90.58% Expensed (\$34,545)		
11.	9.42% Capitalized (\$3,593)		
12.	<u>See</u> , CIWC Exhibit 5.0R, p.4.		